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AUTHOR	Redd, Kenneth E.
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ABSTRACT

College students are leaving their higher education institutions with more educational loan debt than ever before. From academic year 1994-1997 to 1999-2000, the amount postsecondary education students borrowed through federal student loan programs jumped from $24 billion to $33.7 billion, and total debt for borrowers who received master's and other advanced degrees more than doubled. Recent data reveal that much of the increased borrowing occurred because of the expansions of the loan programs rather than growth in college costs. Many new borrowers come from middle and upper income families, and most undergraduate borrowers do not appear to have been adversely affected by their added indebtedness. Several possible reasons have been identified for the increase in the growth of student loans. Increases in federal grant aid have not kept pace with rising costs, and students' financial needs have increased as educational costs have risen. Increases in loan limits and the ease of borrowing have allowed more students to receive loans. This last reason appears to have contributed substantially to the growth in student loans. Most undergraduate loan recipients appear to be able to repay their loans with little difficulty, as long as they complete their degree programs. Repayment obligations are much more difficult for professional school students, who often leave school with debts of $100,000 or more and for undergraduate borrowers who do not complete degree programs. (Contains 13 references.) (SLD)

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By Kenneth E. Redd
Director of Research and Policy Analysis
National Association of Student Financial Aid Administrators

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Why Do Students Borrow So Much? Recent National Trends in Student Loan Debt

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Director of Research and Policy Analysis
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College students are leaving their higher education institutions with more educational loan debt than ever before. From academic year 1994-1995 to 1999-2000, the amount postsecondary education students borrowed through the federal student loan programs jumped from $24 billion to $33.7 billion (U.S. Department of Education 1999 and 2000a). Cumulative federal student loan debt for bachelor's degree recipients rose 19 percent, while total debt for borrowers who received master's and other advanced degrees more than doubled (Scherschel 2000). What has led to the increased use of student loans? Is the rising indebtedness harming students' futures?

While concern about rising student debt levels remains high (Scherschel 1999a and 2000), recent data reveal that much of the increased borrowing occurred due to the expansion of the loan programs rather than to growth in college costs. Further, many of the new loan recipients came from middle- and upper-income families, and most undergraduate borrowers do not appear to have been adversely affected by their added indebtedness.

Reasons Why Borrowing Increased

Several recent studies (King 1999, Redd 1994, Scherschel 1999a and 1999b) provide three possible reasons for the growth of student loans. First, increases in federal grant aid have not kept pace with rising postsecondary education costs, and the widening gap between college prices and grant aid compelled more students to borrow. Second, students' financial need has increased as educational costs have grown, and more of this need is met by loans. And third, increases in loan limits and ease of borrowing have allowed more students to receive loans. Each of these reasons has merit and deserves consideration.

There is no question that postsecondary education costs grew rapidly during the 1990s. The College Board's most recent *Trends in College Prices* report (College Board 2000) shows that, when adjusted for inflation, tuition and fee charges at four-year public colleges and universities increased 49 percent during the decade; at four-year private institutions, tuition prices rose 32 percent. Meanwhile, median income for families with a head of household age 45 to 54 (families most likely to have college-aged children) grew by just 4 percent, and appropriations for Federal Pell Grants (aid for low-income undergraduates) increased only 15 percent.

At first glance, these factors would appear to have been the primary causes for the growth in borrowing. However, data from the National Center for Education Statistics' National Postsecondary Student Aid Study (U.S. Department of Education 2000b and 2000c) show that, for middle- and upper-income undergraduate students, amounts of loans

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actually grew faster than their total costs. For families with income of $40,000 to $59,999, the average annual amount of federal student loans grew to $3,729 from $3,216 during the 1992-93 to 1995-96 period, but total cost of attendance (tuition, fees, room, board, books, educational supplies, and other expenses) *fell* from $14,150 to $13,267. Costs declined because a greater share of the students were enrolled at lower-cost four-year public institutions in 1995-96 than in 1992-93. Despite the shift in enrollment to less expensive colleges and universities, students from middle-income families borrowed more. Among all undergraduate borrowers, average federal student loans grew 16 percent but educational costs increased just 3 percent. Clearly, growth in educational costs does not completely explain the increase in borrowing.

Similarly, amounts borrowed grew much faster than upper-income students' demonstrated financial need. Financial need is defined as the difference between students' and families' total postsecondary education costs and the estimated amounts they can afford to pay from their income and other resources. For undergraduates from families with income of $80,000 or more, financial need increased only 3 percent, but average loan amounts jumped 13 percent. Low-income students faced the opposite extreme; for undergraduates from families with income of under $20,000, financial need jumped 23 percent, while average amounts borrowed only grew 11 percent (U.S. Department of Education 2000b and 2000c).

These results strongly suggest that much of the growth in borrowing also can be attributed to the changes made in the Higher Education Act (HEA), the federal law that governs the financial aid programs. In 1992, the law increased the annual and cumulative maximum amounts students could borrow (Redd 1999). Annual loan limits under the Stafford Subsidized Loan program (loans provided to students based on their financial need) for second-year undergraduates were raised to $3,500 from $2,625. The maximum loan to students in the third or higher year of undergraduate study was raised to $5,500 from $4,000, and graduate/professional student loan maximums grew to $8,500 from $7,500. More importantly, the law also authorized a new loan program-the Stafford Unsubsidized Loan program-which essentially allowed all students, regardless of their families' financial need or income, to receive assistance. Students also were allowed to receive both subsidized and unsubsidized loans in the same academic year. When the new unsubsidized loan amounts were combined with the maximum subsidized amounts, undergraduates in the junior or senior years could borrow up to $10,500 in federal student loans annually.

Income Levels of Students Who Received Loans

Much of the recent growth in federal student loan borrowing has been through the Stafford Unsubsidized Loan program. From its inception in 1993-1994 to 1999-2000, the amount of unsubsidized loans more than tripled-rising from $4.1 billion to $12.9 billion. In the same period, amounts of subsidized loans grew 40 percent, from about $12.5 billion to $17.5 billion (U.S. Department of Education 1999 and 2000a).

Because students may receive unsubsidized loans regardless of their families' incomes, a large share of the added loan dollars appear to have gone to students from middle- and upper-income families. The percentage of undergraduate students from families with income between $60,000 and $79,999 who received federal student loans grew from 56 percent in 1992-93 to 67 percent in 1995-96. At the same time, the proportion of borrowers from families with income of less than $20,000 who received federal loans dropped

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from 52 percent to 49 percent (U.S. Department of Education 2000b and 2000c). Middle- and upper-income families who might not have qualified for need-based Stafford Subsidized Loans became eligible to receive Stafford Unsubsidized Loans. While the unsubsidized program allowed more middle- and upper-income students to receive loans, it is possible that a number of these students were borrowing more than they really needed to attend postsecondary education (King 1999, Redd 1994 and 1999).

The Effects of Loans on Borrowers Who Receive Degrees

However, the growth in indebtedness has to be put into a larger context. For some students, borrowing could be a wise investment because it allows them to finish their educational programs and increases the odds of achieving success in employment and other areas of life. For others, borrowing might lead to financial burdens. It is commonly suggested that loan repayment obligations may cause some loan recipients to delay home and car purchases, marriage, child rearing, and other aspects of life (Baum and Saunders 1998).

Recent information (Baum and Saunders 1998, Choy 2000, Davis 2000) shows that despite the recent increases in borrowing, loan repayment obligations represent just a small portion of most borrowers' after-college salaries. For borrowers who received bachelor's degrees in engineering from four-year public colleges and universities in 1999, monthly loan repayments accounted for just 4.4 percent of average starting salaries. For computer science majors, loan repayments represented only 4.5 percent of average wages, and among education majors, loan repayments equaled only 7 percent of starting salaries. These findings are not meant to suggest that all borrowers were able to repay their loans without hardship. Students from medical, dental, and other professional degree programs typically face debts of $100,000 or more (National Association of Student Financial Aid Administrators 1999). Another study (Davis 2000) shows that borrowers who do not finish their educational programs have a much more difficult time in repaying their loans. Students who leave higher education without obtaining a bachelor's degree often have lower incomes than degree recipients, which makes it much harder for non-completers to repay their loans.

Summary

Federal student loan borrowing grew primarily because the maximum loan limits were increased and middle- and upper-income students became eligible for Stafford Unsubsidized Loans. However, despite the increases in cumulative debt that occurred, most undergraduate loan recipients appear to be able to repay their loans with little difficulty, as long as they complete their degree programs.

However, repayment obligations are much more difficult for professional school students, who often leave their institutions with debt of $100,000 or more, and for undergraduate borrowers who do not complete degree programs. More research would provide greater insights into how indebtedness affects these students after they leave higher education.

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